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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

Arizona Corporation Commission
DOCKETED

NOV 13 2014

DOCKETED BY	nr
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IN THE MATTER OF THE PROPOSED
RULEMAKING TO MODIFY A.A.C. R14-2-
103 TO UPDATE THE UTILITY
CLASSIFICATIONS.

DOCKET NO. RU-00000A-13-0294

DECISION NO. 74810ORDER

BY THE COMMISSION:

This proposed rulemaking would amend Arizona Administrative Code ("A.A.C.") Title 14, Chapter 2, Article 1, A.A.C. R14-2-103 ("Rule 103"), by changing the revenue thresholds used by the Arizona Corporation Commission ("Commission") for classification of utilities.

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On April 18, 2014, the Commission issued Decision No. 74436 directing the Commission's Utilities Division ("Staff") to file a Notice of Rulemaking Docket Opening ("NRDO") and a Notice of Proposed Rulemaking ("NPRM") with the Office of the Secretary of State ("Secretary of State") for publication in the *Arizona Administrative Register*.

2. The NRDO and NPRM were filed with the Secretary of State on April 18, 2014 and published in the *Arizona Administrative Register* on May 9, 2014. A copy of the NPRM, as published, is attached hereto and incorporated herein as Exhibit A.

1 3. The proposed rulemaking has a very narrow focus in terms of direct changes made
2 to the Commission's rules, with only alterations to the revenue threshold classifications included
3 within a single table appearing in Rule 103(A)(3)(q), specifically within the definitions of
4 "utilities" as used in Rule 103. No other changes have been proposed to the remaining language of
5 Rule 103.

6 4. The limited changes to Rule 103 would increase the revenue thresholds for each
7 classification. In addition, the proposed changes would make uniform the revenue thresholds
8 across different types of utilities by classifying telephone utilities under the same revenue
9 thresholds as other types of utilities.

10 5. Decision No. 74436 directed the Hearing Division to hold oral proceedings on June
11 9 and June 12, 2014 in Tucson and Phoenix, respectively, to receive public comment on the
12 proposed rulemaking. The decision also requested that interested parties file written comments
13 concerning the NPRM by June 13, 2014, and provide oral comments at the scheduled proceedings.

14 6. On June 9 and June 12, 2014, oral proceedings were held before a duly authorized
15 Administrative Law Judge ("ALJ") of the Commission at the Commission's offices in Tucson and
16 Phoenix. No members of the public provided public comment in Tucson. In Phoenix, Karen
17 Nally of Camp Verde Water System, Inc. ("CVWS") and Tim Sabo of Roshka Dewulf & Patten
18 spoke in favor of the NPRM. Karen Nally stated that CVWS provides water service to
19 approximately 1,800 customer connections in and around the Town of Camp Verde and that the
20 changes are necessary because the revenue thresholds in Rule 103 have not been updated since
21 1992, the updated thresholds will streamline Commission processes to help reduce rate case
22 expense for small utilities, and CVWS supports having rate cases process more quickly. Tim Sabo
23 stated that he was not speaking on behalf of any particular client, as the utilities that will benefit
24 the most from this rulemaking cannot afford to hire an attorney, and that he supports the
25 rulemaking because a significant number of smaller utilities will be shifted into classifications
26 where they can benefit from reduced filing requirements and the streamlined short form
27 application process.

1 7. On July 11, 2014, Staff filed a Staff Report, which included Staff's economic, small
2 business and consumer impact statement ("EIS"). The Staff Report also stated that Staff had not
3 received any written comments or concerns about the proposed rules or about the accuracy of the
4 preliminary EIS contained in the May 9, 2014 NPRM. In fact, no written comments were received
5 after the NPRM was published. Accordingly, Staff concluded that no change to the draft rule or
6 the EIS was necessary. We agree with Staff's assessment.

7 8. On August 27, 2014, the Commission's Hearing Division issued a recommended
8 opinion and order ("ROO") for the Commission's consideration at an upcoming Open Meeting.
9 Based in large part on concerns with processing times for newly classified D utilities, the ROO
10 recommends against adoption of the NPRM and directs Staff to file a Notice of Termination of
11 Rulemaking with the Secretary of State.

12 9. After careful consideration, the Commission hereby declines to adopt the ROO.
13 A.R.S. § 40-250 does not require the Commission to conduct Class D utility rate cases with the
14 same protracted evidentiary hearing process often seen with Class A, B, or C utility rate cases. For
15 example, A.R.S. § 40-250 does not require multiple rounds of pre-filed testimony and/or closing
16 legal briefs. In cases where a hearing may be required, the Commission may include "notice and
17 opportunity to be heard" language when noticing Class D utility rate cases for Open Meeting, such
18 that the Open Meeting satisfies any hearing requirement that exists in A.R.S. § 40-250.

19 10. The Commission agrees with the public commenters who believe the NPRM will
20 help to streamline the Commission's rate case process, particularly for small utilities.
21 Accordingly, the Commission finds that it is in the public interest to adopt the proposed revisions
22 to Rule 103, as set forth in the NPRM attached hereto as Exhibit A.

23 11. The proposed modifications to Rule 103, as set forth in the NPRM attached hereto
24 as Exhibit A, should be submitted directly to the Secretary of State in the form of a Notice of Final
25 Rulemaking package. The Final Rulemaking package should include a separate Economic, Small
26 Business, and Consumer Impact Statement, attached hereto as Exhibit B. The summary of
27 comments and the Commission's responses to those comments, as set forth in Exhibit C, should
28 also be included in the Final Rulemaking package.

CONCLUSIONS OF LAW

1
2 1. Pursuant to Arizona Constitution, Art. 15 § 3, the Commission has authority and
3 jurisdiction to amend Rule 103 by increasing the revenue thresholds as reflected in the NPRM
4 attached hereto as Exhibit A.

5 2. The revised Rule 103 as set forth in Exhibit A falls within the Commission's
6 exclusive and plenary constitutional authority for ratemaking and classification under Art. 15 § 3.
7 Accordingly, the Commission is not required to submit this rulemaking to the Attorney General's
8 office for certification under A.R.S. § 41-1044.

9 3. Notice of the oral proceedings regarding the NPRM was provided in the manner
10 prescribed by law.

11 4. The revisions to Rule 103 to be included in a Notice of Final Rulemaking contain
12 no substantial changes from the proposed rules as published in the NPRM attached hereto as
13 Exhibit A.

14 5. The revisions to Rule 103 are clear, concise, and understandable; within the
15 Commission's power to make; within enacted legislative standards; and made in compliance with
16 appropriate procedures.

17 6. Adoption of the revisions to Rule 103, as set forth in Exhibit A, is just and
18 reasonable and in the public interest.

19 7. The Economic, Small Business, and Consumer Impact Statement attached hereto as
20 Exhibit B is consistent with the requirements of Arizona's Administrative Procedure Act, A.R.S. §
21 41-1001 *et seq.*, and should be adopted.

22 8. The summary of the written and oral comments received regarding the NPRM and
23 the Commission's responses to those comments, as set forth in Exhibit C, are accurate, comply
24 with A.R.S. § 41-1001(15)(d), and should be included in the Preamble for the Notice of Final
25 Rulemaking for this matter.

ORDER

26
27 IT IS THEREFORE ORDERED that the revised Arizona Administrative Code R14-2-103,
28 as set forth in Exhibit A hereto, is hereby adopted.

1 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff/Legal
2 Division Staff shall prepare and file with the Secretary of State, for publication as an approved
3 final rule, a Notice of Final Rulemaking that includes the text of the revised Rule 103, as set forth
4 in Exhibit A, and a Preamble that conforms with the APA and that includes a summary of
5 comments and Commission responses thereto and an Economic, Small Business, and Consumer
6 Impact Statement.

7 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff/Legal
8 Division Staff is authorized to make non-substantive changes in the adopted Rule 103, as set forth
9 in Exhibit A; the adopted Economic, Small Business, and Consumer Impact Statement; and any
10 additional documents required by the Secretary of State in response to comments received from the
11 Secretary of State during the publication and/or codification process unless, after notification of
12 those changes, the Commission requires otherwise.

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IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

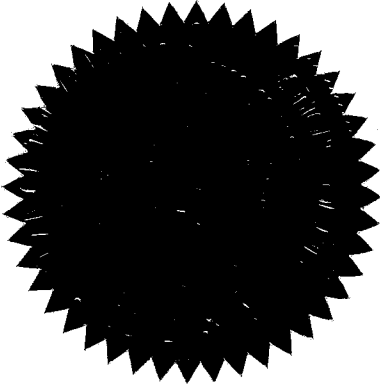

CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 13th day of November, 2014.


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

Page 7

1 SERVICE LIST FOR: Utility Reclassification Rulemaking
2 DOCKET NO.: RU-00000A-13-0294
3

4 Mr. Steven M. Olea
5 Director, Utilities Division
6 Arizona Corporation Commission
7 1200 West Washington Street
8 Phoenix, Arizona 85007

9 Ms. Janice M. Alward
10 Chief Counsel, Legal Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007
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EXHIBIT A

NOTICE OF PROPOSED RULEMAKING

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS;

SECURITIES REGULATION

CHAPTER 2. CORPORATION COMMISSION FIXED UTILITIES

ARTICLE 1. GENERAL PROVISIONS.

PREAMBLE

1. **Sections Affected** **Rulemaking Action**

 R14-2-103 Amend
2. **The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):**

 Authorizing statute: Arizona Constitution article XV § 3; A.R.S. §§ 40-202; 40-203; 40-321, 40-322, 40-281, 40-282.

 Implementing statute: Arizona Constitution article XV § 3; A.R.S. §§ 40-202; 40-203; 40-321, 40-322, 40-281, 40-282.
3. **A list of all previous notices appearing in the Register addressing the proposed rule:**

 Notice of Rulemaking Docket Opening: Published Concurrently in 20 A.A.R., May 9, 2014 (*in this issue*)
4. **The name and address of agency personnel with whom persons may communicate regarding the rulemaking:**

 Name: Bridget A. Humphrey

 Attorney, Legal Division, Arizona Corporation Commission

 Address: 1200 West Washington Street

 Phoenix, Arizona 85007

 Telephone: (602) 542-3402

 Fax: (602) 542-4870

 E-mail: bhumphrey@azcc.gov

Name: Matthew Laudone
Attorney, Legal Division, Arizona Corporation Commission
Address: 1200 West Washington Street
Phoenix, Arizona 85007
Telephone: (602) 542-3402
Fax: (602) 542-4870
E-mail: mlaudone@azcc.gov

Name: John LeSueur
Assistant Director, Utilities Division, Arizona Corporation Commission
Address: 1200 West Washington Street
Phoenix, Arizona 85007
Telephone: (602) 542-4228
Fax: (602) 542-2129
E-mail: ljlesueur@azcc.gov

5. An explanation of the rule, including the agency's reasons for initiating the rule:

The proposed changes will update the annual in-state operating revenue thresholds that classify utilities as A, B, C, D or E, which have not been updated since their adoption by the Commission in Decision No. 57875 (May 18, 1992). Except for Telephone utilities, the proposed revenue thresholds would double the existing Class A threshold, triple the existing Class B threshold, quadruple the existing Class C threshold, and quintuple the existing Class D and E thresholds. Reclassifying Commission-regulated utilities in this manner will impact the applicability of other Commission rules, change rate case filing, accounting and time clock requirements, and the eligibility for submitting a rate case via a short form application.

6. A reference to any study that the agency proposes to rely on in its evaluation of or justification for the proposed rule and where the public may obtain or review the study, all data underlying each study, any analysis of the study and other supporting material:

None

7. **A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant of authority of a political subdivision of this state:**

Not applicable

8. **The preliminary summary of the economic, small business, and consumer impact:**

NOTE – The Arizona Corporation Commission is exempt from the requirements of A.R.S. § 41-1055 relating to economic, small business, and consumer impact statements. See A.R.S. § 41-1057(2). However, under A.R.S. § 41-1057(2), the Arizona Corporation Commission is required to prepare a “substantially similar” statement.

1. NEED:

The proposed rule changes are necessary to update the revenue thresholds used to establish the utility classifications. Proponents of the proposed rule changes believe they will reduce regulatory lag, streamline Commission processes and reduce rate case expense.

2. NAME AND ADDRESS OF AGENCY EMPLOYEE WHO MAY BE CONTACTED TO SUBMIT ADDITIONAL DATA ON THE INFORMATION INCLUDED IN THIS STATEMENT:

John LeSueur, Assistant Director, Utilities Division

Arizona Corporation Commission

1200 West Washington Street

Phoenix, Arizona 85007

Telephone Number (602) 542-4251; Fax Number (602) 542-2129

3. AFFECTED CLASSES OF PERSONS:

- A. Commission-regulated utilities
- B. customers of Commission-regulated utilities
- C. intervenors in utility rate cases
- D. Arizona Corporation Commission

4. RULE IMPACT ON AFFECTED CLASSES OF PERSONS:

- A. Fewer utilities must comply with the Commission’s Affiliated Interests Rules, Energy Efficiency Rules, and Cooperative Streamlining Rules. Utilities’ rate case filing,

accounting and time clock requirements, and the eligibility for submitting a rate case via a short form application will change.

B. Utility cases will be processed faster.

C. The Commission will be required to process more utilities' rate cases within 120 days. Commission rules require the Commission to process Class E utility rate cases within 120 days. The number of Class E utilities will increase from approximately 200 to approximately 320.

5. COSTS AND BENEFITS TO THE AGENCY:

The Commission will have to process more utility rate cases within the 120 days.

6. COSTS AND BENEFITS TO POLITICAL SUBDIVISIONS:

There will be no impact to political subdivisions because the Commission does not have jurisdiction over political subdivisions and the Rules do not apply to them.

7. COSTS AND BENEFITS TO PRIVATE PERSONS:

Customers of utilities will benefit if rate case expense declines and if reducing regulatory lag improves the financial health and stability of regulated utilities. Customers and intervenors may be negatively impacted by having less time to scrutinize and participate in utility rate cases.

8. COST AND BENEFITS TO CONSUMERS OR USERS OF ANY PRODUCT OR SERVICE IN THE IMPLEMENTATION OF THE NEW RULES.

Not applicable.

9. LESS COSTLY OR INTRUSIVE METHODS:

The amendments to the rules are the least costly method for obtaining compliance with the updated standards and, with respect to the incorporated by reference materials, provide for the Commission's rules to be consistent with A.R.S. § 41-1028 and the rules of the Secretary of State.

10. ALTERNATIVE METHODS CONSIDERED:

There are no alternative methods available that promulgate adoption of the updated standards and, with respect to the incorporated by reference materials, provide for the Commission's rules to be consistent with A.R.S. § 41-1028 and the rules of the Secretary of State.

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Bridget A. Humphrey, Esq.
Attorney, Legal Division, Arizona Corporation Commission
Address: 1200 West Washington Street
Phoenix, Arizona 85007
Telephone: (602) 542-3402
Fax: (602) 542-4870
E-mail: bhumphrey@azcc.gov

Name: Matthew Laudone, Esq.
Attorney, Legal Division, Arizona Corporation Commission
Address: 1200 West Washington Street
Phoenix, Arizona 85007
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Name: John LeSueur
Assistant Director, Utilities Division, Arizona Corporation Commission
Address: 1200 West Washington Street
Phoenix, Arizona 85007
Telephone: (602) 542-7270
Fax: (602) 542-2129
E-mail: ljlesueur@azcc.gov

10. The time, place, and nature of the proceedings for the making, amendment, or repeal of the rule, or if no proceeding is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

Public comment will be held on June 12, 2014, beginning at 1:00 p.m. or as soon as practicable thereafter, in Hearing Room 1 at the Commission's Phoenix offices of the Arizona Corporation Commission located at 1200 West Washington, Phoenix, Arizona 85007, and on June 9, 2014, at 1:00 p.m. in Room 222 at the Commission's offices, 400 W. Congress Tucson, Arizona. Hearing Division requests initial written comments be received on or before June 13, 2014. Please reference docket number RU-00000A-13-0294 on all documents.

11. **Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:**

None

12. **Incorporations by reference and their location in the rules:**

None

13. **The full text of the rules follows:**

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS; SECURITIES

REGULATION

CHAPTER 2. CORPORATION COMMISSION

FIXED UTILITIES

ARTICLE 1. GENERAL PROVISIONS

**R14-2-103. Defining Filing Requirements in Support of a Request by a Public Service Corporation
Doing Business in Arizona for a Determination of the Value of Property of the Corporation and of the Rate of
Return Thereon, or in Support of Proposed Increased Rates or Charges**

A. Purpose and definitions

1. No change
2. No change
3. No change
 - a. No change
 - b. No change
 - c. No change
 - d. No change
 - e. No change
 - f. No change
 - g. No change
 - h. No change
 - i. No change
 - j. No change
 - k. No change
 - l. No change
 - m. No change
 - n. No change
 - o. No change
 - p. No change
 - q. "Utilities" -- For purposes of the Section, utilities are electric, gas, telephone, water, sewer or any other that may be supplying service and/or commodities which in the future may be adjudged a public service corporation and under the jurisdiction of this Commission, are classified as follows:

Annual Operating Revenue					
	Class A	B	C	D	E
Electric & Gas	Exceeding	\$1,000,000 to	\$250,000 to	\$50,000 to	Less than
	\$5,000,000	\$5,000,000	\$999,000	\$249,999	\$50,000
	<u>10,000,000</u>	<u>3,000,000 to</u>	<u>1,000,000 to</u>	<u>250,000 to</u>	<u>250,000</u>
		<u>10,000,000</u>	<u>2,999,999</u>	<u>999,999</u>	
Water & Sewer	Exceeding	\$1,000,000 to	\$250,000 to	\$50,000 to	Less than
	\$5,000,000	\$5,000,000	\$999,000	\$249,999	\$50,000
	<u>10,000,000</u>	<u>3,000,000 to</u>	<u>1,000,000 to</u>	<u>250,000 to</u>	<u>250,000</u>
		<u>10,000,000</u>	<u>2,999,999</u>	<u>999,999</u>	
Telephone	Exceeding	\$250,000 to	\$100,000 to	\$25,000 to	Less than
	\$1,000,000	\$1,000,000	\$249,000	\$99,999	\$25,000
	<u>10,000,000</u>	<u>3,000,000 to</u>	<u>1,000,000 to</u>	<u>250,000 to</u>	<u>250,000</u>
		<u>10,000,000</u>	<u>2,999,999</u>	<u>999,999</u>	

Annual operating revenues are those gross utility operating revenues derived from jurisdictional operations, including the requested rate relief. A combination utility is a utility which provides more than one of the commodities or services enumerated in this subsection. For combination utilities, the annual operating revenue, including the requested rate relief, for the specific subsidiary, department, or operating division requesting the rate change shall be used for classification purposes.

r. No change

B. Filing requirements:

1. Information required from Class A, B, C and D utilities: The information required to be prepared and submitted by Class A, B, C and D Utilities in conjunction with a filing is presented below. Corresponding schedule formats are contained in the Appendix of this General Order and denoted. These formats are not applicable to Class E utilities. The Appendix schedule formats A-1 through A-5 are a part of this General Order, and the Applicant's schedules should conform to these formats. All other Appendix schedule formats and descriptions are illustrative and the applicant's specific formats may vary from that suggested in the Appendix. The substantive information requested, both on the Appendix schedule and in the body of this General Order, however, must be contained on the applicant's schedules together with the titles and schedule numbers provided in the Appendix. Specific information items requested on the Appendix schedules may be omitted without formal waiver, from the filing where it is evident that said items are not applicable to the applicant's business. The instructions and notes contained on the Appendix schedules shall be followed where applicable. Reconstruction Cost New Depreciated information not filed by the applicant shall be deemed waived.

Information	Filing Required by	Appendix Schedule Reference(s)
A. Summary Information:		
1. A summary of the increase in revenue requirements and the spread of the revenue increase by customer classification.	All classes	A-1
2. A summary of the results of operations for the test year and for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	All classes	A-2
3. A summary of the capital structure for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	Classes A & B	A-3
4. Construction expenditures and gross utility plant in service for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	All classes	A-4
5. A summary of changes in financial position for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	Classes A & B	A-5
B. Rate Base Information:		
1. A schedule showing the elements of original cost and RCND rate bases.	All classes	B-1
2. A schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base.	All classes	B-2
3. A schedule showing pro forma adjustments to gross plant in service and accumulated depreciation for the RCND rate base.	All classes	B-3
4. A schedule demonstrating the determination of reproduction cost new less depreciation at the end of the test period.	All classes	B-4
5. A schedule showing the computation of working capital allowance.	All classes	B-5
C. Test Year Income Statements:		
1. A test year income statement, with pro form adjustments.	All classes	C-1
2. A schedule showing the detail of all pro forma adjustments.	All classes	C-2
3. A schedule showing the incremental taxes and other expenses on gross revenues and the computation of an incremental gross revenue conversion factor.	All classes	C-3
D. Cost of Capital Information:		
1. A schedule summarizing the elements in the capital structure at the end of the test year and the projected year, their related costs and the computation of the total cost of capital.	All classes	D-1
2. A schedule showing the detail of long-term and short-term debt at the end of the test year and the projected year and their total cost.	Classes A & B	D-2
3. A schedule showing the detail of preferred stock at the end of the test year and the projected year, and their total cost.	Classes A & B	D-3
4. A schedule summarizing conclusions of the required return on the common equity as of the end of the test year and the projected year.	Classes A & B	D-4
E. Financial Statements and Statistical Data:		
1. Comparative balance sheets for the end of the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-1
2. Comparative income statements for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-2
3. Comparative statements of changes in financial position for the test year and the 2 fiscal years ended prior to the end of the test year.	Classes A & B	E-3
4. Statements of changes in stockholder's equity for the test year and the 2 fiscal years ended prior to the end of the test year.	Classes A & B	E-4
5. A comparative schedule showing by detail account number, utility plant balances at the end of the test year and the end of prior fiscal year.	All classes	E-5
6. Comparative departmental statements of operating income for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes of combination utilities	E-6
7. Comparative operating statistics on customers, consumption, revenues, and expenses for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-7
8. A comparative schedule of all significant taxes charged to operations for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes except Class D	E-8
9. Audited financial statements, if available, for the test year and the 2 fiscal years ended prior	All classes	E-9

to the end of the test year. If the financial statements have not been audited, notes to the financial statements should be provided to indicate accounting method, depreciation lives and methods, income tax treatment and other important disclosures.

F. Projections and Forecasts:

- | | | |
|---|---|-----|
| 1. A projected income statement for the projected year compared with actual test year results, at present rates and proposed rates. | All classes | F-1 |
| 2. Projected changes in financial position for the projected year compared with the test year, at present rates and proposed rates. | Classes A & B | F-1 |
| 3. Projected annual construction requirements, by property classification, for 1 to 3 years subsequent to the test year, compared with the test year. | Classes A & B
3 years
Classes C & D
1 year | F-3 |
| 4. Important assumptions used in preparing forecasts and projections. | All classes | F-4 |

G. Cost of Service Information

A utility shall submit cost of service analyses and studies if all of the following conditions prevail:

1. The utility is in a segment of the utility industry that recognizes cost of service studies as important tools for rate design.
2. Costs incurred by the utility are likely to vary significantly from 1 defined segment of customers to another.

A historical accounting period other than the test year may be used for cost of service purposes provided that customer mix in the historical period used is representative of the test year. When a cost of service analysis is required, the following information shall be submitted:

- | | | |
|--|--|--------------------------|
| 1. Schedule showing rates of return by customer classification at present and proposed rates. | Classes A, B
and C
if applicable | G-1
G-2 |
| 2. Schedules showing the approach used in allocating or assigning plant and expenses to classes of service and defined functions. | Classes A, B
and C
if applicable | G-3
G-4
G-5
G-6 |
| 3. Schedules showing the development of all allocation factors used in the all allocation factors used in the cost of service study. | Classes A, B
and C
if applicable | G-7 |

H. Effect of Proposed Rate Schedules:

- | | | |
|--|---|-----|
| 1. A comparison of revenues by customer classification or other classification of revenues for the test year, at present and proposed rates. | All classes | H-1 |
| 2. A comparison of revenues by class of service and by rate schedule for the test year, at present and proposed rates. | Classes A & B | H-2 |
| 3. A comparison of present and proposed rate schedules or representative rate schedules. | Class A
representative
schedules;
Classes B, C
and D -
all schedules | H-3 |
| 4. Typical bill analysis | All classes | H-4 |
| 5. Bill count | All classes | H-5 |

2. Information required from Class E Utilities: The information required to be prepared and submitted by a Class E Utility in support of a filing is as follows:

- a. A statement of income for the test year similar in format to Schedule C-1 or E-2.
- b. A balance sheet as of the end of the test year similar in format to Schedule E-1.
- c. Utility plant account balances at the end of the test year similar in format to Schedule E-5.
- d. An estimate of new investment in utility plant to be added in the projected year.

- e. A schedule of current rates and proposed rates and the additional revenues to be derived from the proposed rates.

The appendix schedules shall be used as guides in presenting the information specified in this subsection.

3. No change
4. No change
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 - a. No change
 - b. No change
 - c. No change
 - d. No change
10. No change
11. No change
 - a. No change
 - b. No change
 - i. No change
 - ii. No change
 - iii. No change
 - iv. No change
 - v. No change
 - c. No change
 - d. No change
 - i. No change
 - ii. No change
 - iii. No change
 - iv. No change
 - v. No change
 - e. No change
 - i. No change
 - ii. No change
 - f. No change
 - g. No change
 - h. No change

**Appendix. Arizona Corporation Commission; Regulation R14-2-103; Rate Application
Filing Requirements; Index of Schedules**

No change

Appendix A. Summary Schedules

No change

Appendix B. Rate Base Schedules

No change

Appendix C. Test Year Income Statements

No change

Appendix D. Cost of Capital

No change

Appendix E. Financial Statements and Statistical Schedules

No change

Appendix F. Projections and Forecasts

No change

Appendix G. Cost of Service Analyses

No change

Appendix H. Effect of Proposed Tariff Schedules

No change

EXHIBIT B

ECONOMIC, SMALL BUSINESS AND CONSUMER IMPACT STATEMENT PER A.R.S. § 41-1057

1. **NEED:** The proposed rule changes are necessary to update the revenue thresholds used to establish the utility classifications. Proponents of the proposed rule changes believe they will reduce regulatory lag, streamline Commission processes and reduce rate case expense.
2. **AFFECTED CLASSES OF PERSONS:**
 - A. Commission-regulated utilities
 - B. customers of Commission-regulated utilities
 - C. intervenors in utility rate cases
 - D. Arizona Corporation Commission
3. **RULE IMPACT ON AFFECTED CLASSES OF PERSONS:**
 - A. Fewer utilities must comply with the Commission's Affiliated Interests Rules, Energy Efficiency Rules, and Cooperative Streamlining Rules. Utilities' rate case filing, accounting and time clock requirements, and the eligibility for submitting a rate case via a short form application will change.
 - B. Utility cases will be processed faster.
 - C. The Commission will be required to process more utilities' rate cases within 120 days. Commission rules require the Commission to process Class E utility rate cases within 120 days. The number of Class E utilities will increase from approximately 200 to approximately 320.
4. **COST AND BENEFITS TO THE AGENCY:** The Commission will have to process more utility rate cases within the 120 days.
5. **COST AND BENEFITS TO POLITICAL SUBDIVISIONS:** There will be no impact to political subdivisions because the Commission does not have jurisdiction over political subdivisions and the Rules do not apply to them.

EXHIBIT B

6. **COST AND BENEFITS TO PRIVATE PERSONS:** Customers of utilities will benefit if rate case expense declines and if reducing regulatory lag improves the financial health and stability of regulated utilities. Customers and intervenors may be negatively impacted by having less time to scrutinize and participate in utility rate cases.
7. **COST AND BENEFITS TO SMALL BUSINESS:** The small businesses that are regulated by the Commission as public service corporations generally support the proposed changes as a mechanism to reduce regulatory lag, streamline Commission processes and reduce rate case expense. Small businesses that are customers of public service corporations have not expressed opposition to the proposed changes.
8. **LESS COSTLY OR INTRUSIVE METHODS:** The amendments to the rules are the least costly or intrusive method to update the utility classifications.
9. **ALTERNATIVE METHODS CONSIDERED:** There are no alternative methods available to update the utility classifications.

Exhibit C

Summary of the Comments Made on the Rulemaking and the Agency Response Thereto Prepared Pursuant to A.R.S. § 41-1001(14)(d)(iii)

The Commission did not receive any written comments on the NPRM. The oral comments received by the Commission after the publication of the NPRM are included in the following table, along with the Commission's response to each.

<u>Section</u>	<u>Public Comment</u>	<u>Commission Response</u>
Proposed Reclassification Rule Generally	Karen Nally of Camp Verde Water Systems, Inc. stated that the changes are necessary because the Rule 103 revenue thresholds have not been updated since 1992. She further stated that updated thresholds will streamline the Commission's processes and will help reduce rate case expense for small utilities.	The Commission acknowledges the supportive comments. No change is needed in response to these comments.
Proposed Reclassification Rule Generally	Tim Sabo of Roshka, Dewulf, & Patten spoke in favor of the NPRM. Mr. Sabo stated that he was not speaking on behalf of any particular client, as the utilities that will benefit the most from this rulemaking cannot afford to hire an attorney. He supports the rulemaking because a number of smaller utilities will be shifted into classifications where they can benefit from reduced filing requirements and streamlined rate case processes.	The Commission acknowledges the supportive comments. No change is needed in response to these comments.